First Quarter 2016 Review and Outlook

U. S. Stocks ended the quarter modestly higher which is a remarkable turn of events given the selloff that kicked of the year. During the first week of 2016, stock values dropped by roughly 6%. By mid-February, the major stock indices were down more than 10%. Mid quarter, however, the trend shifted and by the close of the quarter, the S&P 500 index was up +1.4%, the DJIA had gained +2.2% yet the NASDAQ was still in negative territory off -2.4%. Bonds generally increased in value this quarter; the Barclay’s Aggregate Index up +3.0%.

Two significant worries rung in the New Year. New rules designed to stabilize China’s stock markets seemed to have had the opposite effect, leading to dramatic downward swings in prices. These swings highlighted underlying weakness in the Chinese economy and led to growing concern about emerging markets and global growth. Additionally, weak global demand and continued supply growth spelled trouble for crude oil futures as they plunged to the lowest levels in years. At the same time, the markets were eyeing the Federal Reserve which raised rates in December and had indicated that it was planning on further rate increases during 2016 as it started down the path of normalizing monetary policy.

As the quarter moved on, these fears subsided and equities began to turn higher. China’s market stabilized, even if the underlying concerns about the health of the country’s economy remained. Signs that oil producers were willing to talk about freezing supply at current levels helped bring crude prices off their lows. Also words and actions from global central banks made it clear we are still in an era of very loose monetary policy and as a result, markets in the U.S. were able to make up the lost ground in short order.

Domestically, value funds had returns in positive territory while growth funds were generally down. Within key sectors some trends shifted as financial were down given concerns about enduring low rates; healthcare retreated due to concerns of further government regulation; utilities advanced as rates appeared to stabilize and gold had significant gains as investor concerns took hold.

On the fixed income side, a flight to safety sent the yield on the 10 year Treasury Bond down to 1.8% from 2.2% at the start of the year. That drop proved a major boost to the vast majority of bond funds. High yield bond funds, which had been under tremendous pressure last year, stabilized and rose over +2% for the quarter.

Overseas stock markets lagged the U.S. for the most part. Most regions had negative returns with the exception of Latin America which had a positive quarter but remains negative over the past 12 months. World bond funds and emerging bond funds were generally in positive territory.

The following shows details of the major domestic indices:

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| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 3/31/2016** | **12 MONTHS Ending**  **3/31/2016** | **THREE YEARS Ending**  **3/31/2016** | **TEN YEARS Ending**  **3/31/2016** |
| **DJIA** | 2.2% | 2.1% | 9.3% | 7.5% |
| **S & P 500** | 1.4% | 1.8% | 11.8% | 7.0% |
| **NASDAQ Composite** | -2.4% | 0.6% | 15.6% | 8.7% |
| **Barclays Cap. Agg. Bond** | 3.0% | 2.0% | 2.5% | 4.9% |

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| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 3/31/2016** | **12 MONTHS Ending 3/31/2016** | **THREE YEARS Ending**  **3/31/2016** | **TEN YEARS Ending**  **3/31/2016** |
| **Mutual Funds** |  |  |  |  |
| **Domestic** |  |  |  |  |
| **Large Cap** |  |  |  |  |
| **Growth** | -2.5% | -2.4% | 11.0% | 6.1% |
| **Value** | 1.3% | -3.0% | 8.1% | 4.9% |
| **Small Cap** |  |  |  |  |
| **Growth** | -4.3% | -11.9% | 6.4% | 4.5% |
| **Value** | 2.2% | -7.0% | 6.0% | 5.0% |

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| **International** |  |  |  |  |
| **Europe** | -2.5% | -5.6% | 3.7% | 2.3% |
| **Latin America** | 14.7% | -11.3% | -15.5% | -0.7% |
| **Japan** | -3.7% | -2.7% | 6.1% | -1.7% |
| **Pacific ex Japan** | 0.3% | -11.1% | -0.7% | 5.4% |
| **China Region** | -4.7% | -13.4% | 1.7% | 5.3% |
| **Corporate Bond** |  |  |  |  |
| **Long** | 6.2% | 1.0% | 3.8% | 6.8% |
| **Intermediate** | 2.5% | 0.7% | 1.8% | 4.3% |
| **Short** | 1.0% | 0.4% | 0.7% | 2.4% |
| **Government Bond** |  |  |  |  |
| **Long** | 6.9% | 2.2% | 4.8% | 7.8% |
| **Intermediate** | 2.0% | 1.4% | 1.5% | 3.9% |
| **Short** | 1.0% | 0.5% | 0.4% | 2.4% |
| **Municipal Bond** |  |  |  |  |
| **Long** | 1.6% | 3.6% | 3.3% | 4.3% |
| **Intermediate** | 1.4% | 3.2% | 2.5% | 4.0% |
| **Short** | 0.6% | 1.0% | 0.8% | 2.2% |

Market Outlook

In light of the significant volatility that was experienced during the first quarter, we continue to be concerned with issues discussed at the close of the fourth quarter: lower exports, low (but improved) oil prices and significant employment shortfalls (unemployed and under employed workers). The Federal Reserve did raise interest rates in the fourth quarter of 2015 and suggested further rate increase were likely in 2016. Given market weakness experienced both domestically and internationally during the first quarter, these interest rate increases now seem unlikely for 2016. Given the state of the economy, this makes sense. Finally, strong U.S. leadership overseas continues to be missing in action.

Echoing our words from last quarter, our advice is to continue with your current equity and bond/cash allocation targets. We are available to discuss your specific goals and concerns on an individual level. Please let us know by phone or email or during your upcoming quarter end review if you have specific topics you would like to address.

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